



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE IN OCTOBER 2018**

EFSI Investment Committee
5th October 2018

Those attending

Chairman:

Mr. Wilhelm MOLTERER, Managing Director

Ms. Iliyana TSANOVA, Deputy Managing Director

Members:

Mr. Gordon BAJNAI

Mr. Thierry DEAU

Ms. Dalia DUBOVSKA

Ms. Vicky D. KEFALAS

Ms. Andreja KODRIN

Mr. Fabio PAMMOLI

Ms. Nieves RODRIGUEZ VARELA

Mr. Manfred SCHEPERS

Experts:

Mr. Marcus SCHLUECHTER, Advisor to the Managing Director

Mr. Juan Jose FEBLES, Advisor to the Deputy Managing Director

EFSI Secretariat:

Ms. Emilie BOIS-WILLAERT, Head of EFSI Secretariat

Mr. Renko WOUTERS, Corporate Secretariat Officer

Rationales for the decisions taken by the Investment Committee in October 2018

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in October 2018.

In accordance with article 7.12 of Regulation (EU) 2017/2396, the rationales for the decisions taken by the Investment Committee to approve the use of the EU guarantee for EIB operations are made publicly available, except for projects subject to a confidentiality agreement between the EIB and the promoters.

In line with article 30 of the EFSI Agreement and the Transparency Policy of the Bank, the rationales of the Investment Committee decisions for such projects will be disclosed at a later stage by including them in a list of the rationales of Investment Committee decisions taken throughout the year, which is published, in general, twice a year. This is after the projects have been signed or if these projects are not subject to a confidentiality agreement between the EIB and the promoters anymore.

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The rationales of the Investment Committee to approve the availability of the EU guarantee for the following EIB operations in September 2018 are as follow:

MIUR RDI PROGRAMME (Italy)

The IC approved the use of the EFSI guarantee for an investment platform (IP), sponsored by the Italian Ministry of Education, University and Research (MIUR), to finance new research and innovation projects performed by SMEs, mainly located in South of Italy. The operation will target RDI in key economic sectors such as aerospace, agrifood, blue growth, green chemistry, energy, sustainable mobility, design, health, environmental and Key Enabling Technologies. The investment platform will blend a combination of European Structural and Investment Funds (ESIF), EIB financing and other resources coming from commercial banks. The contribution to EU and EFSI RDI objectives is expected notably via projects strengthening research, technological development and innovation, which are in line with Horizon 2020 objectives.

The operation responds to a tangible sub-optimal investment situation for RDI in the South of Italy, whose regions suffer from a gap in RDI long-term financing and venture capital - estimated at EUR 5bn up to 2023 – in addition to some local structural financing gaps, more severe than in other EU regions. Despite RDI being a key driver for economic growth and development, local financial operators are averse to funding RDI projects, due to the perceived high risks. This market failure limits the functioning of the Italian SME and Midcaps focused in innovation, even in presence of project ideas with high potential. The EFSI-supported investment platform has been designed to address these major investment gaps, through lending conditions better adapted to RDI projects, in financing amounts and repayment terms. The proposed IP is one of the firsts combining EFSI and ESIF for the RDI. Beside public resources (ESIF, EFSI and CDP guarantee) the platform will enable and facilitate the crowding-in of additional private resources from several commercial intermediaries and interested investors, added to own committed investment by the project promoters themselves. By channeling appropriate funding, it is expected also to have important positive impacts for employment, notably youth and highly skilled employment, alleviating brain drain in the targeted regions (unemployment rates in some regions can exceed 20%). The platform may also lead to the establishment of other ESIF-EFSI platforms in other sectors and EU regions.

POLAND SOLAR POWER PROJECTS PROGRAMME (Poland)

The IC approved the use of the EFSI guarantee for a Programme Loan (PL) to support the instalment of small-scale, grid-connected photovoltaic plants, installed on free land plots, in Poland, a Cohesion Region. The operation contributes to the expansion of the use or supply of renewable energy in the country, which requires an increased renewable energy (RE) generation capacity becoming operational in the upcoming years, for fulfilling the EU climate action objectives and the Polish 2020 targets for reducing CO2 emissions. The projects under the proposed programme would also be among the first renewable energy projects in Poland financed on a project finance basis under a new feed-in premium support model. The operation also contributes to the Union's priorities on convergence and social cohesion, and is expected to support employment creation.

The sub-optimal investment situation is characterised by the still limited availability of long-term financing for renewable energy projects in Poland. The needed longer maturity of a loan is very challenging for the local banking market, and commercial banks have very limited appetite for financing renewables at the moment. Under a project finance basis, certain sponsors and promoters have relatively weak financial resources and limited experience in implementing such projects. Moreover as there is no experience with the Poland's newly established granting scheme to RE, and the absence of strategic investors such as utilities or financially strong financial investors is perceived by the potential lenders as a higher risk. With the support of EFSI, under this programme loan (PL), the EIB shall support smaller private promoters across Poland specialising in RE development and investments. The catalytic effect of the participation of the EIB shall ensure the attraction of new counterparts to the EIB, and the project sponsors to attract the necessary funding to complete the projects. The successful implementation of this PL could trigger further investments in the sector.

SBCI BUSINESS SUPPORT INVESTMENT PLATFORM GUARANTEE

The Investment Committee approved the use of the EFSI guarantee for the proposed EUR 15m mezzanine tranche in the support of a dedicated Investment Platform supporting access to finance for SMEs and MidCaps in Ireland, managed by the National Promotional Bank Strategic Banking Corporation of Ireland (SBCI).

The Investment platform will provide credit support to new financing provided to SMEs and Midcaps by local Irish banks, whose lending activities to the target beneficiaries remains severely restricted and led to a significant investment gap estimated at an annual EUR1bn already in 2016. The investment gap has been exacerbated by the pending Brexit, which will impact the supply and marketing chains of Irish entities deeply, and requires urgent investment into products and logistics to new markets. It is expected that a large share of the underlying new lending will be towards the agricultural and food sectors, given their importance for the Irish economy and existing close integration with the UK.

The proposal will enable SBCI to provide uncapped guarantees to local intermediaries covering 80% of the risk of underlying financing on a loan-by loan basis, which will in turn facilitate EUR 300m of new eligible lending. It follows the structure of the SME Initiative, which has been successfully implemented in a number of Member States, but for the first time employs national contributions rather than EU structural funds.

The IC recognised the wider EIB Group contribution to the initiative, which also relies on a EUR 135m non-EFSI tranche provided by EIB and the expertise of the EIF in structuring of tranching portfolio guarantees.

The IC welcomed the wider EIB Group contribution, as well as the close cooperation with the SBCI and local partner banks in the support of SMEs and MidCaps at a crucial time for the resilience of the Irish economy. It noted the high number of jobs expected to

benefit from the proposal, which at 800,000 is more than a third of the nation's total workforce.

Despite the welcome stabilisation of the economic environment in Europe access to finance for SMEs and Midcap remains constrained, both quantitatively and qualitatively in terms of available terms, tenors and collateral requirements, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

ICO MID-CAP INVESTMENT PLATFORM GUARANTEE (Spain)

The Investment Committee approved the designation of the proposal as an Investment Platform under EFSI and the use of the EFSI guarantee for the full delegation risk sharing window.

The Investment Committee welcomed the close cooperation with the Spanish National Promotional Bank towards increased access to finance for entities with less than 3,000 employees, and the expected high multiplier effect resulting from the match-funding provided by intermediary banks in the window supported by EFSI. It acknowledged the significant contribution of the platform to important EU Policy objectives, and the Excellent score for the Quality and Soundness of the Project.

Despite the welcome stabilisation of the economic environment in Europe access to finance for SMEs and Midcap remains constrained, both quantitatively and qualitatively in terms of available terms, tenors and collateral requirements, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

BNL ENHANCED SME AND MIDCAP SUPPORT GUARANTEE (Italy)

The Investment Committee approved the use of the EFSI guarantee for the proposed participation in a synthetic securitisation of a granular portfolio of Italian corporate loans. The EIB intervention with EFSI support facilitates lending capacity towards increased access to finance for eligible entities with less than 3,000 employees, with a contractual minimum requirement to support new eligible financing of at least 5x the amount of the EFSI intervention.

The proposal combines the financing capacity of EFSI with the deep market access of BNL group, an important provider of financing for SMEs and Midcaps in Italy. At full deployment, the new eligible portfolio is expected to benefit SMEs and Midcaps with more than 250,000 employees in total.

The IC welcomed the joint EIB Group intervention with EIF acting as guarantor towards the intermediary and providing its expertise in the due diligence and implementation of the project.

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The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

ENERGY AND ENVIRONMENTAL SUSTAINABILITY PROJECT (Portugal)

The IC approved the use of the EFSI guarantee for a proposal consisting of the renovation of technical infrastructure for refrigeration, lighting, energy management, water saving, food waste reduction and recovery in food retail shops in Portugal. Additionally, the project includes roof top photovoltaic power generation and the installation of E-car charging stations, as well as additional environmental protection measures. As a result, the project supports EU and national targets for energy efficiency and renewable energy and contributes to environmental objectives and to the reduction of greenhouse gas emissions. In addition, part of the investments will be realised in Portuguese cohesion priority regions.

The project will produce significant economic, environmental and social benefits in Portugal. In order for the investment programme to be fully implemented, long term financing, matching the average economic life of the investments, is required for at least a significant part of the investment costs. Commercial Portuguese banks are however not in a position to offer long-term unsecured financing for the implementation of the project.

With EFSI, the EIB can offer a tenor aligned with the economic life of the assets and provide financing for specific environmentally related aspects of the project, not available on the Portuguese market. The EIB financing also provides a positive signalling effect to the market and is expected to crowd-in other financiers.

In addition, as the operation contains certain risk features above those normally accepted by the EIB, the loan could not have been provided to the same extent by the EIB without EFSI support.

NOORDWEST HOSPITAL (The Netherlands)

The IC approved the use of the EFSI guarantee for a proposal to finance the first phase of the construction and equipment of a new top clinical hospital in Alkmaar, the renovation of a building in Den Helder and the investment in a new electronic medical record system. The project will support EFSI objectives in the health sector, while the new hospital in Alkmaar is also expected to comply with the Nearly Zero Energy Buildings (NZEB) regulation in the Netherlands, and therefore supporting climate change objectives.

The proposal is addressing a sub-optimal investment situation, channelled by the specificities of the Dutch healthcare sector. This has evolved from a budget to a performance based revenue system, with decreased support of the government, changing the risk profile of healthcare centres. Commercial banks and financial institutions, including local NPB's, have subsequently become more cautious to finance healthcare providers, thereby limiting the availability of funds for hospitals and their capacity to implement necessary investments.

The EIB loan therefore delivers high additionality aspects, including crowding in of commercial banks, and NPBs, with longer tenor compared to commercial lenders and diversifying the promoter's funding base. The EIB participation as an anchor investor will confer a strong signal to the market and crowd in commercial banks and NPBs, whose current exposure towards the health sector, in combination with the recent regulatory reforms and consequences, is limiting their financial commitments.

The combination of the provision of a longer tenor by the EIB and the general pressure on the revenues due to the reduced public budget in the Dutch healthcare sector, makes the EIB/EFSI loan dependent on the performance related revenues of the hospital and leads to a risk profile of Special Activities as per the Bank's statute.

VILNIUS CITY STREET LIGHTING (Lithuania)

The IC approved the use of the EFSI guarantee for a proposal to finance the modernisation of the city of Vilnius' street lighting infrastructure. The current Vilnius City Street lighting system was installed in 1997-2000, is inefficient and the existing lighting networks are obsolete, causing inadequate streets illumination levels, continuous failures and high energy and operational costs. The project will therefore support the achievement of national and European targets for energy efficiency and CO2 emissions reduction, as well as the overall improvement of the street lighting with positive impacts on safety, quality of life and the aesthetic view of the city. The operation will further be implemented in a cohesion region.

As the city of Vilnius does not have adequate debt capacity to finance the project itself or to provide a guarantee, the promoter needs to find the financing for the project on a stand-alone basis. The principal source of debt repayment would be coming from revenues generated by the borrower from a long term Public Service Contract (PSC) signed with the city of Vilnius. Yet, due the complexity of this financing model and the absence of a municipal guarantee, commercial banks have so far been reluctant to provide loans to the promoter.

Thanks to EFSI, EIB funding provides a possibility for the promoter to complete the project within the planned timeframe and is expected to have a strong signalling effect to ensure the needed additional private financing.

The promoter is a new counterpart of the EIB, and the operation's risk profile exceeds the typical lending characteristics of an EIB loan and is therefore labelled Special Activity.

Wilhelm MOLTERER
Managing Director